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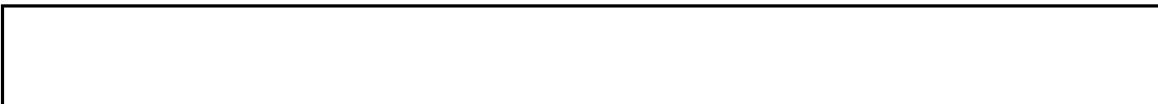
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*LAOS: The Communists have issued a new statement reiterating their position on a settlement of the war in Laos.

The Lao Patriotic Front's statement, which was broadcast from Hanoi on 12 May, demands an unconditional US bombing halt throughout Laos. After this, both sides would "immediately realize a cease-fire," and the Lao parties concerned would "immediately discuss the formation of a provisional coalition government." The statement also alludes again to the de facto partition of the country during any negotiations.

The statement is essentially a condensed version of the Communist proposal of 6 March 1970, but it introduces the prospect of an "immediate" cease-fire, to which only an indirect reference was made in last year's proposal. In its terseness, the statement avoids polemical boilerplate or advancing Communist notions on what constitutes an acceptable provisional coalition government. The statement, for example, refers to Laos' continuing adherence to the 1962 Geneva Accords, but avoids the phrase "new realities," which the Communists have used in recent years as shorthand for demands for a larger role in a new government.

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The new initiative is clearly Hanoi's handiwork and may represent, at least in part, a fresh effort to drive a wedge between the prime minister and the US. For several years, the North Vietnamese have been interested in securing a halt to US bombing in the infiltration corridor in return for a diminution of the fighting elsewhere in Laos. So far these

efforts have been a total failure. There has not only been a considerable increase in US bombing throughout Laos in recent years, but Souvanna repeatedly has made it clear that what happens in the infiltration corridor is a matter to be settled between North Vietnam and the US. Hanoi may believe that Souvanna may be more susceptible now, but the North Vietnamese must also realize that they will have to be extremely conciliatory on matters of direct interest to Souvanna and other Lao leaders if there is to be even an outside chance of making headway on the bombing issue.

The new Communist proposal leaves open the possibility of future diplomatic dialogue between the Communists and Souvanna. It does not say that a bombing halt is a precondition for Lao peace talks, only that it is necessary for a solution to the war in Laos. In view of their unsuccessful efforts to get substantive talks under way during the past year, the Communists cannot be optimistic that they will have more to show from this effort. At a minimum, the new proposal helps to portray the Communists as interested in a reasonable "settlement" to the Lao-tian portion of the Indochina war, and attempts to place the onus for a continuation of the war on the US and its allies.

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

JAPAN: Despite increasing international pressure, Tokyo is trying to avoid a revaluation of the yen.

Japanese Government leaders fear the unfavorable reaction of certain economic groups that would suffer from a revaluation. They argue that present efforts to reduce the payments surplus by lowering import barriers should be further tested before any revaluation occurs. Liberalization of import controls, however, probably will not in the near future slow down the reserve buildup which is now over \$6 billion.

Although the recent international monetary developments have not put much direct pressure on the yen because of Japan's tight exchange controls, international pressure for revaluation of the yen doubtless will grow stronger. Many government officials and businessmen outside of Japan have felt for some time that Tokyo has an unfair advantage in export markets because the yen is undervalued. Many Japanese also would like to see their currency revalued because it would reduce import prices and thus inflationary pressures.

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CUBA: The Cuban Government is taking another step in its efforts to broaden its contacts with other Latin American nations.

On 6 May a Cuban merchant vessel left Havana carrying prefabricated materials for the construction of two hospitals in Peru. Two days later an advance contingent of the Cuban construction team arrived in Peru; the rest of the team is expected to arrive on 22 May. The project is an outgrowth of assistance to the areas devastated by the earthquake a year ago.

Cuba's endeavors to increase its respectability have not been limited to Peru. Castro has spoken favorably of the "revolutionary process" in Bolivia. A Colombian-Cuban friendship house was opened in Bogota in April of this year, and Cuba is continuing to show an interest in its trade and cultural contacts in the Caribbean.

Cuba will probably continue this trend in a cautious manner, seeking to expand gradually its contacts with other Latin American countries as opportunities present themselves.

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C HONDURAS: El Salvador is being blamed for a mass poisoning at an army post near the border.

About 50 of 200 persons have died so far from a pesticide contamination apparently caused by sloppy conditions at the barrack mess. Honduras military leaders are probably deeply concerned over the defense implication of this latest incident which the US Embassy has described as an instantaneous knockout of much of the government's forward military strength on a key sector of the armistice line.

Perhaps in an effort to deflect public reaction against poor conditions at military installations, word is being spread that the incident is one of Salvadoran subversion. Recent forest fires that have occurred in Honduras are also regarded suspiciously. This latest expression of anti-Salvadoran feeling--rampant since the war two years ago--is likely to negate peacemaking advances made during the OAS session last month.

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EUROPEAN COMMUNITIES: The agricultural ministers of the European Community (EC) yesterday sanctioned measures to cushion the impact of floating exchange rates on German and Dutch farm incomes. The compromise avoids the degree of disruption of the Common Agricultural Policy that unilateral steps would have caused. The agreement permits Bonn and The Hague to protect their markets from cheaper farm imports and to compensate their farmers for export losses when the values of the mark and guilder rise more than 2.5 percent above their parities. If the floating exchange rates stabilize just below this level, German and Dutch farmers would have an interest in pressing their governments to return their currencies to fixed parities.

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FRANCE-MOROCCO: During his visit to Morocco last week, French Finance Minister Giscard d'Estaing offered assurances that Paris will increase its economic and military aid. According to an official of the French Foreign Ministry, the aid will consist largely of credits, for the most part tied to procurement in France. Military aid, including substantial grants, will be increased to the levels prevailing before the Ben Barka affair of 1965, an episode which strained relations between the two countries until early 1970. Details of the aid package are to be settled in June, when there is to be a general review of outstanding issues, including the protection of French interests in Morocco.

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COMMUNIST CHINA: Peking is strengthening its worldwide diplomatic initiatives by promoting economic activities abroad. Preliminary reporting from the spring Canton fair, which closes on Saturday, suggests that Chinese purchases from, and sales to, the industrialized free world probably will exceed the levels of the past several years. China also plans to send an economic delegation headed by the deputy minister of foreign trade to Scandinavia this fall; similar groups have been active throughout the world since the first of the year.

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COMMUNIST CHINA - PAKISTAN: Islamabad reportedly is seeking a commodity credit from Peking for about \$100 million over and above the \$200-million Chinese aid commitment made last November for Pakistan's five-year plan. It is doubtful that Peking will supply that much additional aid. Although Pakistan has requested that deliveries to East Pakistan be held up for the time being because of port congestion, the Chinese are expected to make every effort to move supplies in quickly once the two major ports are clear. The Chinese have made clear their support for the government in Islamabad. By supplying additional aid, Peking probably will enhance its already good relations with Islamabad.

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BOLIVIA: The far left is undertaking a campaign to expel the Peace Corps. Charges that Peace Corps volunteers are responsible for the increasing use of narcotics by Bolivian young people are becoming more frequent and sensational. A corpsman was among those arrested during a highly publicized round-up of "hippie types" on 4 May; he was released without charges. Other complaints against the Corps concern its alleged involvement in espionage, political indoctrination, and birth control campaigns designed to limit the Indian population. Although there have been no official statements on the issue, some high-level government officials probably would like to see the Peace Corps expelled and may try to influence President Torres to take this action.

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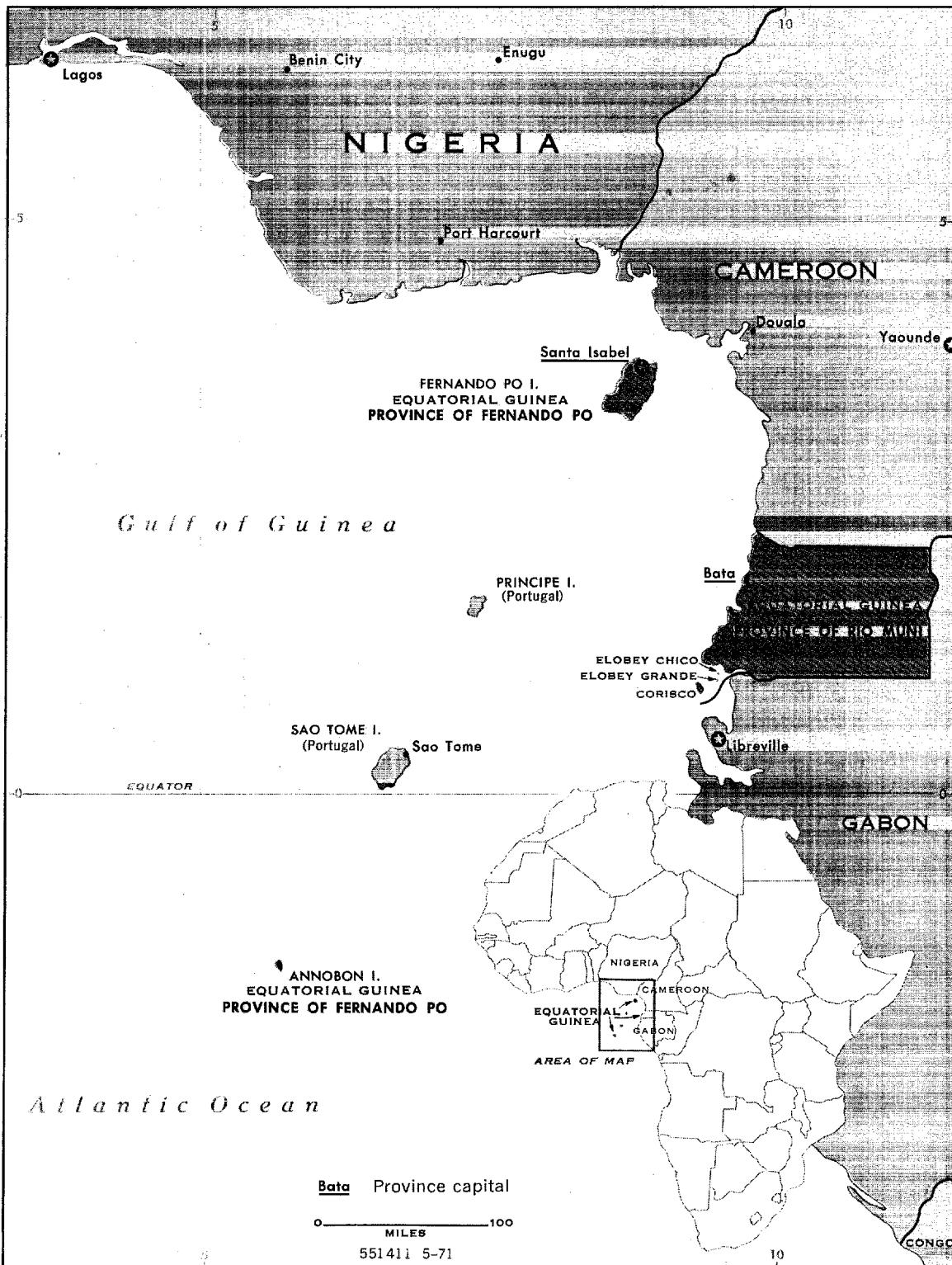
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PERU: Repercussions from last week's violent clash between police and squatters are being felt in Lima. On Monday, the military government arrested and detained for 13 hours the popular auxiliary bishop of Lima, who had held an open air mass in memory of the squatter killed in the incident. The government, which has denounced the socially conscious cleric as "an agitator in cassock," is especially upset by his suggestion that the government is not really working for the poor. The arrest may cost the regime considerable popular confidence and lessen the support it has received from the church.

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PERU: President Velasco has severely criticized the Inter-American Development Bank (IDB). Velasco inaugurated the IDB governors' meeting in Lima Monday night with an aggressive speech epitomizing the frustration and anger of his military government over its relations with international financial institutions. He declared that this meeting would clarify whether Latin America "can expect something or not from the developed countries." Although virtually all of the President's rhetoric has been heard before, this time the denunciation was made directly to those involved and at a highly publicized event. Representatives of the international financial community reportedly have expressed "shock and dismay" at what they consider a rude, intemperate and counterproductive speech.

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EQUATORIAL GUINEA: President Macias is moving to legalize the autocratic rule he has established in practice since the country became independent in 1968. In a special communiqué last week he announced the suspension of the constitution bequeathed by Spain, the dissolution of the legislature, and his personal "assumption" of full powers, including the appointment of deputies. Macias indicated that his office would draft a new constitution, and that the "colonialist" court system would be reorganized. The President's move has been accepted passively by a populace long since thoroughly intimidated by his heavy-handed rule.

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